

**Tennessee Local Development Authority**

**For the Year Ended  
June 30, 2000**

***Arthur A. Hayes, Jr., CPA, JD, CFE***  
Director

***Edward Burr, CPA***  
Assistant Director

***Elizabeth M. Birchett, CPA***  
Audit Manager

***Donna Jewell***  
In-Charge Auditor

***Cindy Dunn***  
***Manish Goradia***  
***Erick Rosa, CPA***  
Staff Auditors

***Gerry C. Boaz, CPA***  
Technical Analyst

***Amy Brack***  
Editor

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

Financial/compliance audits of state departments and agencies are available on-line at  
[www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).  
For more information about the Comptroller of the Treasury, please visit our Web site at  
[www.comptroller.state.tn.us](http://www.comptroller.state.tn.us).



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

February 6, 2001

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
and  
Members of the Tennessee Local Development Authority  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Local Development Authority for the year ended June 30, 2000. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/ks  
01/021

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Tennessee Local Development Authority**  
For the Year Ended June 30, 2000

---

## AUDIT OBJECTIVES

The objectives of the audit were to consider the authority's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, and contracts; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## AUDIT FINDINGS

The audit report contains no findings.

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

---

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

Financial/compliance audits of state departments and agencies are available on-line at  
[www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).  
For more information about the Comptroller of the Treasury, please visit our Web site at  
[www.comptroller.state.tn.us](http://www.comptroller.state.tn.us).

---

**Audit Report**  
**Tennessee Local Development Authority**  
**For the Year Ended June 30, 2000**

---

**TABLE OF CONTENTS**

---

	<u>Exhibit</u>	<u>Page</u>
<b>INTRODUCTION</b>		1
Post-Audit Authority		1
Background		1
Organization		1
<b>AUDIT SCOPE</b>		2
<b>OBJECTIVES OF THE AUDIT</b>		2
<b>PRIOR AUDIT FINDINGS</b>		2
<b>RESULTS OF THE AUDIT</b>		4
Audit Conclusions		4
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		5
<b>FINANCIAL SECTION</b>		
Independent Auditor's Report		7
Financial Statements		9
Balance Sheets	A	9
Statements of Revenues, Expenses, and Changes in Retained Earnings	B	10
Statements of Cash Flows	C	11
Notes to the Financial Statements		12
Supplementary Information		17
Supplementary Balance Sheets—Program Level		17

---

## TABLE OF CONTENTS (CONT.)

---

	<u>Exhibit</u>	<u>Page</u>
Supplementary Statements of Revenues, Expenses, and Changes in Retained Earnings–Program Level		18
Supplementary Statements of Cash Flows–Program Level		19

# **Tennessee Local Development Authority For the Year Ended June 30, 2000**

---

## **INTRODUCTION**

---

### **POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Tennessee Local Development Authority. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

### **BACKGROUND**

The Tennessee Local Development Authority was created April 2, 1978, by an act of the General Assembly, codified as Title 4, Chapter 31, *Tennessee Code Annotated*. The authority is delegated the responsibility for issuing its debt obligations to provide funds to make loans to local governments for the State Loan Program and for capital projects; certain small business concerns for pollution control facilities; farmers for certain capital improvements; counties for the acquisition of equipment for use by county or volunteer fire departments serving unincorporated areas of the counties; airport authorities and municipal airports; and mental health/retardation/alcohol and drug facilities (the Community Provider Pooled Loan Program). To date, the authority has issued debt only to fund the State Loan Program and the Community Provider Pooled Loan Program.

### **ORGANIZATION**

The Tennessee Local Development Authority is composed of the Governor, the Secretary of State, the Comptroller of the Treasury, the State Treasurer, the Commissioner of Finance and Administration, and two other members—one appointed by the Speaker of the Senate from nominations by the Tennessee County Services Association and the other by the Speaker of the House from nominations by the Tennessee Municipal League. The Governor serves as Chairman, and the Comptroller of the Treasury serves as Secretary.

An organization chart for the Tennessee Local Development Authority is on the following page.

---

## **AUDIT SCOPE**

---

The audit was limited to the period July 1, 1999, through June 30, 2000, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 2000, and for comparative purposes, the year ended June 30, 1999. The Tennessee Local Development Authority has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

The audit covered fund 34 of the State of Tennessee Accounting and Reporting System (allotment code 307.07).

---

## **OBJECTIVES OF THE AUDIT**

---

The objectives of the audit were

1. to consider the authority's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, and contracts (including the bond resolutions).
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

---

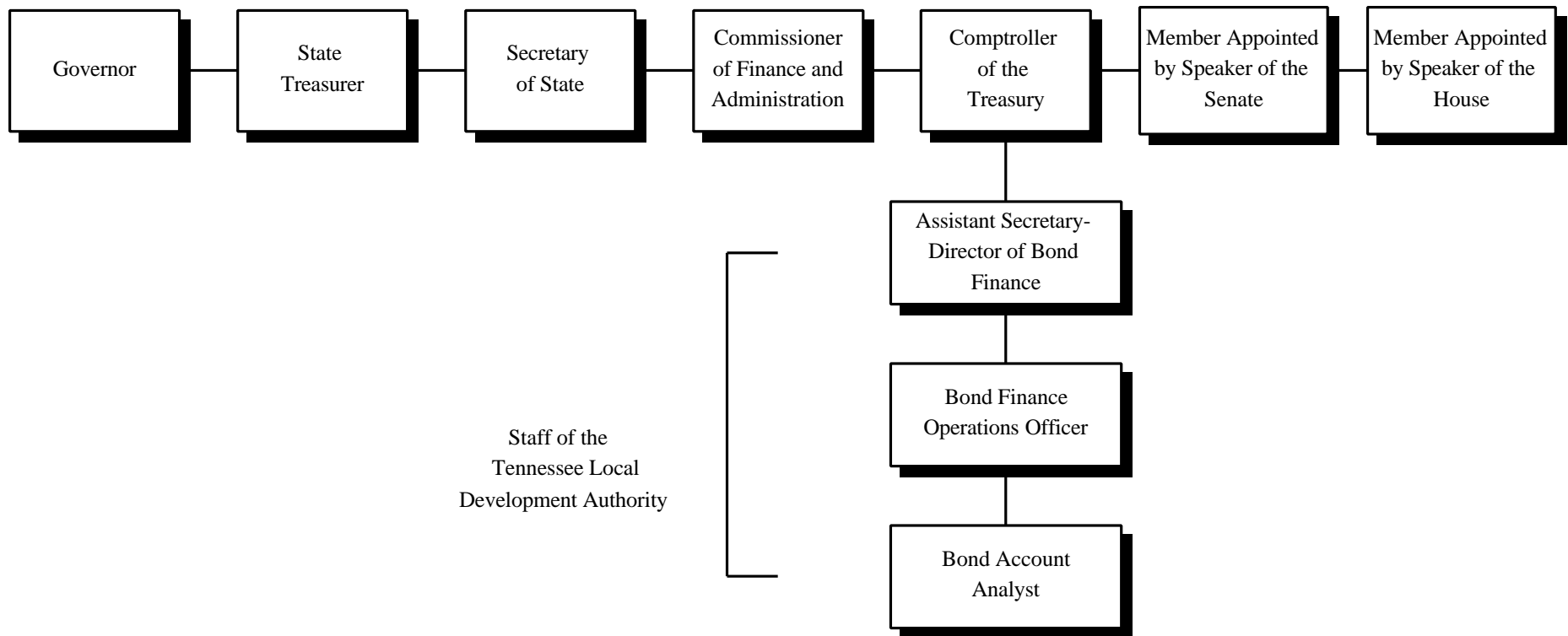
## **PRIOR AUDIT FINDINGS**

---

There were no findings in the prior audit report.



## TENNESSEE LOCAL DEVELOPMENT AUTHORITY ORGANIZATION CHART



---

## RESULTS OF THE AUDIT

---

### AUDIT CONCLUSIONS

#### Internal Control

As part of the audit of the Tennessee Local Development Authority's financial statements for the year ended June 30, 2000, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the Tennessee Local Development Authority's financial statements.



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 741-3697  
FAX (615) 532-2765**

**Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

November 29, 2000

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Tennessee Local Development Authority, a component unit of the State of Tennessee, as of and for the year ended June 30, 2000, and have issued our report thereon dated November 29, 2000. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the authority's financial statements are free of material misstatement, we performed tests of the authority's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

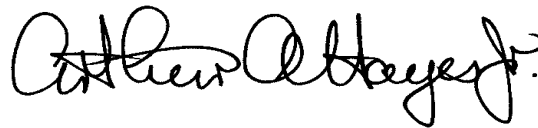
The Honorable John G. Morgan  
November 29, 2000  
Page Two

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." in a cursive script.

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/ks



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 741-3697  
FAX (615) 532-2765**

**Independent Auditor's Report**

November 29, 2000

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Tennessee Local Development Authority, a component unit of the State of Tennessee, as of June 30, 2000, and June 30, 1999, and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the authority's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

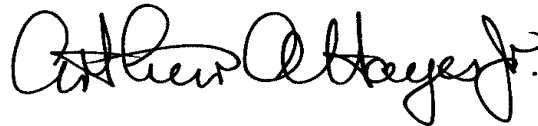
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Local Development Authority as of June 30, 2000, and June 30, 1999, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

The Honorable John G. Morgan  
November 29, 2000  
Page Two

Our audits were conducted for the purpose of forming an opinion on the basic financial statements, taken as a whole. The accompanying financial information on pages 17 through 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2000, on our consideration of the authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." in a cursive style.

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/ks

TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
BALANCE SHEETS  
JUNE 30, 2000, AND JUNE 30, 1999

(Expressed in Thousands)		
	<u>June 30, 2000</u>	<u>June 30, 1999</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash (Note 2)	\$ 25,826	\$ 29,575
Receivables:		
Loans receivable	4,746	5,599
Interest receivable on loans	7	20
Interest receivable on investments	<u>233</u>	<u>53</u>
Total current assets	<u>30,812</u>	<u>35,247</u>
Restricted assets (Notes 2 and 3):		
Cash	69	6,635
Investments	<u>6,889</u>	<u>1,396</u>
Total restricted assets	<u>6,958</u>	<u>8,031</u>
Other assets:		
Loans receivable	86,982	81,689
Deferred charges	<u>374</u>	<u>400</u>
Total other assets	<u>87,356</u>	<u>82,089</u>
Total assets	<u>\$ 125,126</u>	<u>\$ 125,367</u>
<b><u>LIABILITIES AND EQUITY</u></b>		
Liabilities:		
Current liabilities:		
Warrants payable	\$ 94	\$ 223
Accrued interest payable	1,525	1,325
Payable to borrowers (Note 4)	684	853
Notes payable (Note 6)	37,631	33,100
Revenue bonds payable (Note 6)	<u>3,835</u>	<u>4,680</u>
Total current liabilities	<u>43,769</u>	<u>40,181</u>
Noncurrent liabilities:		
Advance from primary government (Note 5)	14,800	16,000
Revenue bonds payable, net (Note 6)	<u>54,428</u>	<u>58,133</u>
Total noncurrent liabilities	<u>69,228</u>	<u>74,133</u>
Total liabilities	<u>112,997</u>	<u>114,314</u>
Equity:		
Retained earnings-reserved for statutory fund	6,000	6,000
Retained earnings-unreserved	<u>6,129</u>	<u>5,053</u>
Total equity	<u>12,129</u>	<u>11,053</u>
Total liabilities and equity	<u>\$ 125,126</u>	<u>\$ 125,367</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS  
 FOR THE YEARS ENDED JUNE 30, 2000, AND JUNE 30, 1999

(Expressed in Thousands)

	Year Ended <u>June 30, 2000</u>	Year Ended <u>June 30, 1999</u>
<u>OPERATING REVENUES</u>		
Revenues from loans	\$ 4,968	\$ 6,181
Investment income	1,777	1,608
Net decrease in fair value of investments	<u>(48)</u>	<u>(10)</u>
Total operating revenues	<u>6,697</u>	<u>7,779</u>
<u>OPERATING EXPENSES</u>		
Interest expense	5,440	5,813
Bond issuance cost	25	25
Administrative expense	<u>181</u>	<u>139</u>
Total operating expenses	<u>5,646</u>	<u>5,977</u>
Operating income before operating transfer	1,051	1,802
Operating transfer from primary government	<u>25</u>	<u>25</u>
Income before loss on extraordinary item	1,076	1,827
Loss on refunding	<u>-</u>	<u>(2,012)</u>
Net income	<u>1,076</u>	<u>(185)</u>
Retained earnings, July 1	<u>11,053</u>	<u>11,238</u>
Retained earnings, June 30	<u>\$ 12,129</u>	<u>\$ 11,053</u>

The Notes to the Financial Statements are an integral part of this statement.



TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2000, AND JUNE 30, 1999

(Expressed in Thousands)

	Year Ended <u>June 30, 2000</u>	Year Ended <u>June 30, 1999</u>
Cash flows from operating activities:		
Operating income before operating transfer	\$ 1,051	\$ 1,802
Adjustments to reconcile operating income to net cash used by operating activities:		
Amortization	25	25
Revenue from loans	(4,968)	(6,181)
Investment income	(1,729)	(1,598)
Interest expense	5,440	5,813
Increase (decrease) in warrants payable	(129)	220
Increase (decrease) in payable to borrowers	(169)	(240)
Total adjustments	(1,530)	(1,961)
Net cash used by operating activities	(479)	(159)
Cash flows from noncapital financing activities:		
Proceeds from advance	-	16,000
Proceeds from sale of notes	37,651	33,114
Payments to refunding escrow	-	(23,891)
Principal payments	(38,880)	(31,470)
Interest paid	(5,229)	(6,082)
Operating transfer from primary government	25	25
Net cash used by noncapital financing activities	(6,433)	(12,304)
Cash flows from investing activities:		
Loans issued	(14,387)	(11,252)
Collections of loan principal	10,055	15,181
Interest received on loans	4,873	5,230
Interest received on investments	1,597	1,616
Proceeds from maturity of investments	128	1,747
Purchase of investments	(5,669)	-
Net cash provided (used) by investing activities	(3,403)	12,522
Net increase (decrease) in cash	(10,315)	59
Cash, July 1	36,210	36,151
Cash, June 30	\$ 25,895	\$ 36,210

The Notes to the Financial Statements are an integral part of this statement.

**Tennessee Local Development Authority**  
**Notes to the Financial Statements**  
**June 30, 2000, And June 30, 1999**

---

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Tennessee Local Development Authority was created to provide financial assistance to local governments through the issuance of revenue bonds or notes. The authority has also issued bonds to assist nonprofit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. In accordance with the Governmental Accounting Standards Board's Statement 14, *The Financial Reporting Entity*, the authority is reported as a discretely presented component unit in the *Tennessee Comprehensive Annual Financial Report*. Although the authority is a separate legal entity, its board consists primarily of state officials, and therefore, the state has the ability to affect the day-to-day operations of the authority.

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The Tennessee Local Development Authority follows all applicable GASB pronouncements as well as applicable private sector pronouncements issued on or before November 30, 1989. Certain amounts presented for the preceding year have been reclassified for comparative purposes.

**Measurement Focus and Basis of Accounting**

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

**Investments**

Investments are stated at fair value.

**Bond Discounts and Issuance Costs**

Bond discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable unamortized bond discount. Unamortized issuance costs are reported as deferred charges.

**Tennessee Local Development Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2000, And June 30, 1999**

---

**NOTE 2. DEPOSITS AND INVESTMENTS**

**Deposits.** Under the general bond resolution of the Tennessee Local Development Authority, the funds of the authority are to be deposited with the State Treasurer and can be invested in any security deemed acceptable to Treasury standards.

The fund had \$25,894,943 in the State Treasurer's pooled investment fund at June 30, 2000, and \$36,209,734 at June 30, 1999.

The pooled investment fund administered by the State Treasurer is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and agency obligations, and in obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). The pooled investment fund is also authorized to enter into securities lending agreements in which U.S. government securities may be loaned to brokers for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report*.

**Investments.** Investments are required to be categorized to indicate the level of custodial risk assumed by the authority. All of the authority's investments are category 1, which consists of investments that are insured or registered or for which the securities are held by the authority or its agent in the authority's name.

Authority investments at June 30, 2000, expressed in thousands:

	<u>Category 1</u> <u>Fair Value</u>
U.S. Treasury Notes	\$5,621
U.S. Treasury Securities-State and Local Government Series	<u>1,268</u>
Total investments	<u>\$6,889</u>

Authority investments at June 30, 1999, expressed in thousands:

	<u>Category 1</u> <u>Fair Value</u>
U.S. Treasury Securities-State and Local Government Series	<u>\$ 1,396</u>

**Tennessee Local Development Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2000, And June 30, 1999**

---

**NOTE 3. RESTRICTED ASSETS**

The general bond resolution of the authority requires that the principal of each bond issue include an amount equal to one year's debt service requirement and that such amount be placed in special trust accounts with the trustee. The required debt service reserve was \$6,958,160 at June 30, 2000, and \$8,030,728 at June 30, 1999.

**NOTE 4. PAYABLE TO BORROWERS**

This account represents interest earnings on restricted assets and loan principal overpayments that will be refunded to borrowers.

**NOTE 5. ADVANCE FROM PRIMARY GOVERNMENT**

On June 2, 1999, the State Funding Board advanced \$16,000,000 to the authority for the Community Provider program. The advance is to be repaid from amounts received from the borrowers. Interest is accrued at a variable rate. The authority has repaid \$1,200,000 at June 30, 2000.

**NOTE 6. NOTES AND BONDS PAYABLE**

**Notes.** Notes payable at June 30, 2000, and June 30, 1999, expressed in thousands:

	<u>June 30, 2000</u>	<u>June 30, 1999</u>
Revenue bond anticipation notes 3.152% issued May 13, 1999, maturing May 12, 2000 (includes unamortized premium of \$100)	\$ -	\$ 33,100
Revenue bond anticipation notes 4.56% issued May 10, 2000, maturing June 1, 2001 (includes unamortized premium of \$131)	<u>37,631</u>	<u>-</u>
Total notes payable	\$ <u>37,631</u>	\$ <u>33,100</u>

**Tennessee Local Development Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2000, And June 30, 1999**

---

**Revenue bonds.** Bonds payable at June 30, 2000, and June 30, 1999, expressed in thousands:

	<u>June 30, 2000</u>	<u>June 30, 1999</u>
Refunding revenue bonds, 4.0% to 7.25% issued January 14, 1987, due in various amounts of principal and interest from \$.2 million in 2001 to \$.9 million in 2015 (net of unamortized discount of \$705 at June 30, 2000, and \$753 at June 30, 1999)	\$ 3,616	\$ 3,568
Refunding revenue bonds, 2.5% to 5.75%, issued July 7, 1993, due in various amounts of principal and interest from \$3.5 million in 2001 to \$2.1 million in 2011	22,430	25,600
Refunding revenue bonds, 4.75% to 5.125%, issued November 1, 1997, due in various amounts of principal and interest from \$3.3 million in 2001 to \$.015 million in 2022 (net of unamortized discount of \$67 and deferred amount on refunding of \$1,631 at June 30, 2000, and unamortized discount of \$70 and deferred amount on refunding of \$1,710 at June 30, 1999)	<u>32,217</u>	<u>33,645</u>
Total bonds payable	\$ <u>58,263</u>	\$ <u>62,813</u>

Debt service requirements to maturity of the revenue bonds payable at June 30, 2000, expressed in thousands:

For the Year(s) <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 3,835	\$ 3,122	\$ 6,957
2002	4,025	2,933	6,958
2003	4,225	2,732	6,957
2004	4,115	2,519	6,634
2005	4,255	2,307	6,562
2006-2022	<u>40,211</u>	<u>13,338</u>	<u>53,549</u>
Total	\$ <u>60,666</u>	\$ <u>26,951</u>	\$ <u>87,617</u>

**Tennessee Local Development Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2000, And June 30, 1999**

---

**NOTE 7.      REFUNDING**

On June 2, 1999, the State Funding Board advanced \$16,000,000 to the authority for the Community Provider program. Advanced proceeds combined with other funds available to the authority were used to advance refund \$11,515,000 of Series 1992 Bonds and \$11,035,000 of Series 1994 Bonds. The carrying amount of the bonds was \$22,550,000. The refunding resulted in a difference between the reacquisition price and the carrying amount of the old debt of \$2,012,000. Because the advance from the State Funding Board will be repaid at a variable rate, the full economic impact of this refunding could not be determined. Proceeds from the refunding were deposited into an irrevocable trust; the bonds were considered to be defeased. On June 30, 2000, \$21,495,000 of these bonds outstanding are considered defeased.

**NOTE 8.      PRIOR-YEAR DEFEASANCE OF DEBT**

Prior to fiscal year 1999, the authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are included in the state's financial statements in an agency fund but are not recorded as assets or liabilities of the authority. On June 30, 2000, \$17,420,000 of bonds outstanding are considered defeased. On June 30, 1999, \$18,165,000 of bonds outstanding are considered defeased. These bonds will be redeemed on March 1, 2001.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
SUPPLEMENTARY BALANCE SHEETS - PROGRAM LEVEL  
JUNE 30, 2000, AND JUNE 30, 1999

(Expressed in Thousands)						
	June 30, 2000			June 30, 1999		
	State Loan Program	Community Providers Program	Total	State Loan Program	Community Providers Program	Total
<b><u>ASSETS</u></b>						
Current assets:						
Cash	\$ 25,248	\$ 578	\$ 25,826	\$ 29,049	\$ 526	\$ 29,575
Receivables:						
Loans receivable	3,835	911	4,746	4,680	919	5,599
Interest receivable on loans	7	-	7	15	5	20
Interest receivable on investments	233	-	233	53	-	53
Total current assets	29,323	1,489	30,812	33,797	1,450	35,247
Restricted assets						
Cash	69	-	69	6,635	-	6,635
Investments	6,889	-	6,889	1,396	-	1,396
Total restricted assets	6,958	-	6,958	8,031	-	8,031
Other assets:						
Loans receivable	73,705	13,277	86,982	67,401	14,288	81,689
Deferred charges	374	-	374	400	-	400
Total other assets	74,079	13,277	87,356	67,801	14,288	82,089
Total assets	\$ 110,360	\$ 14,766	\$ 125,126	\$ 109,629	\$ 15,738	\$ 125,367
<b><u>LIABILITIES AND EQUITY</u></b>						
Liabilities:						
Current liabilities:						
Warrants payable	\$ 94	\$ -	\$ 94	\$ 223	\$ -	\$ 223
Accrued interest payable	1,301	224	1,525	1,261	64	1,325
Payable to borrowers	637	47	684	662	191	853
Notes payable	37,631	-	37,631	33,100	-	33,100
Revenue bonds payable	3,835	-	3,835	4,680	-	4,680
Total current liabilities	43,498	271	43,769	39,926	255	40,181
Noncurrent liabilities:						
Advance from primary government	-	14,800	14,800	-	16,000	16,000
Revenue bonds payable, net	54,428	-	54,428	58,133	-	58,133
Total noncurrent liabilities	54,428	14,800	69,228	58,133	16,000	74,133
Total liabilities	97,926	15,071	112,997	98,059	16,255	114,314
Equity:						
Retained earnings-reserved for statutory fund	6,000	-	6,000	6,000	-	6,000
Retained earnings-unreserved	6,434	(305)	6,129	5,570	(517)	5,053
Total equity	12,434	(305)	12,129	11,570	(517)	11,053
Total liabilities and equity	\$ 110,360	\$ 14,766	\$ 125,126	\$ 109,629	\$ 15,738	\$ 125,367

TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
SUPPLEMENTARY STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN RETAINED EARNINGS - PROGRAM LEVEL  
FOR THE YEARS ENDED JUNE 30, 2000, AND JUNE 30, 1999

(Expressed in Thousands)						
	June 30, 2000			June 30, 1999		
	State Loan Program	Community Providers Program	Total	State Loan Program	Community Providers Program	Total
<b>OPERATING REVENUES</b>						
Revenues from loans	\$ 3,914	\$ 1,054	\$ 4,968	\$ 3,950	\$ 2,231	\$ 6,181
Investment income	1,732	45	1,777	1,445	163	1,608
Net decrease in fair value of investments	(48)	-	(48)	-	(10)	(10)
Total operating revenues	5,598	1,099	6,697	5,395	2,384	7,779
<b>OPERATING EXPENSES</b>						
Interest expense	4,553	887	5,440	4,644	1,169	5,813
Bond issuance cost	25	-	25	25	-	25
Administrative expense	181	-	181	137	2	139
Total operating expenses	4,759	887	5,646	4,806	1,171	5,977
Operating income before operating transfer	839	212	1,051	589	1,213	1,802
Operating transfer from primary government	25	-	25	25	-	25
Income before loss on extraordinary item	864	212	1,076	614	1,213	1,827
Loss on refunding	-	-	-	-	(2,012)	(2,012)
Net income	864	212	1,076	614	(799)	(185)
Retained earnings, July 1	11,570	(517)	11,053	10,956	282	11,238
Retained earnings, June 30	\$ 12,434	\$ (305)	\$ 12,129	\$ 11,570	\$ (517)	\$ 11,053



TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
SUPPLEMENTARY STATEMENTS OF CASH FLOWS - PROGRAM LEVEL  
FOR THE YEARS ENDED JUNE 30, 2000, AND JUNE 30, 1999

(Expressed in Thousands)						
	June 30, 2000			June 30, 1999		
	State Loan Program	Community Providers Program	Total	State Loan Program	Community Providers Program	Total
Cash flows from operating activities:						
Operating income before operating transfer	\$ 839	\$ 212	\$ 1,051	\$ 589	\$ 1,213	\$ 1,802
Adjustments to reconcile operating income to net cash used by operating activities:						
Amortization	25	-	25	25	-	25
Revenue from loans	(3,914)	(1,054)	(4,968)	(3,950)	(2,231)	(6,181)
Investment income	(1,684)	(45)	(1,729)	(1,445)	(153)	(1,598)
Interest expense	4,553	887	5,440	4,644	1,169	5,813
Increase (decrease) in warrants payable	(129)	-	(129)	223	(3)	220
Increase (decrease) in payable to borrowers	(25)	(144)	(169)	(214)	(26)	(240)
Total adjustments	(1,174)	(356)	(1,530)	(717)	(1,244)	(1,961)
Net cash used by operating activities	(335)	(144)	(479)	(128)	(31)	(159)
Cash flows from noncapital financing activities:						
Proceeds from advance	-	-	-	-	16,000	16,000
Proceeds from sale of notes	37,651	-	37,651	33,114	-	33,114
Payments to refunding escrow	-	-	-	-	(23,891)	(23,891)
Principal payments	(37,680)	(1,200)	(38,880)	(30,465)	(1,005)	(31,470)
Interest paid	(4,502)	(727)	(5,229)	(4,600)	(1,482)	(6,082)
Operating transfer from primary government	25	-	25	25	-	25
Net cash used by noncapital financing activities	(4,506)	(1,927)	(6,433)	(1,926)	(10,378)	(12,304)
Cash flows from investing activities:						
Loans issued	(14,387)	-	(14,387)	(11,241)	(11)	(11,252)
Collections of loan principal	9,036	1,019	10,055	9,637	5,544	15,181
Interest received on loans	3,814	1,059	4,873	3,970	1,260	5,230
Interest received on investments	1,552	45	1,597	1,452	164	1,616
Proceeds from maturity of investments	128	-	128	571	1,176	1,747
Purchase of investments	(5,669)	-	(5,669)	-	-	-
Net cash provided (used) by investing activities	(5,526)	2,123	(3,403)	4,389	8,133	12,522
Net increase (decrease) in cash	(10,367)	52	(10,315)	2,335	(2,276)	59
Cash, July 1	35,684	526	36,210	33,349	2,802	36,151
Cash, June 30	\$ 25,317	\$ 578	\$ 25,895	\$ 35,684	\$ 526	\$ 36,210